CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

TM

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-023
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Patricia Moore	Auditor
Samprit Shergill	Auditor

AUDIT REPORT NUMBER

#09-023

24th DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

TABLE OF CONTENTS

Mr. Peter Alvitre, President
Board of Directors
24th DAA, Tulare County Fair
215 Martin Luther King
Tulare, California 93274

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 24th District Agricultural Association (DAA), Tulare County Fair, Tulare, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 24th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 24th DAA, Tulare County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 24th DAA, Tulare County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-023, on the 24th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 24th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford, CPA
Chief, Audit Office

June 12, 2009

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111 - 118	$ 364,141	$ 446,284
Accounts Receivable, Net	131	48,077	67,541
Deferred Charges	143	8,053	1,557
Land	191	489,069	489,069
Buildings and Improvements, Net	192	1,349,704	1,393,533
Equipment, Net	193	19,321	28,913
TOTAL ASSETS		**2,278,364**	**2,426,898**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Payable	212, 214.02	98,291	82,902
Current Portion, All Long Term Obligations	212.5	19,434	30,186
Taxes Payable	221 - 226	5,371	2,193
Deferred Income	228	18,103	25,690
Guaranteed Deposits	241	200	400
Compensated Absences Liability	245	78,239	68,966
Long Term Debt - Equipment Loan	250	-	43,008
Long Term Debt-Fiscal Assistance	250.1	97,172	97,172
Total Liabilities		**316,810**	**350,517**
Net Resources			
Reserve for Junior Livestock Auction	251	84,908	67,700
Net Resources - Operations	291	38,819	267,531
Net Resources - Capital Assets, less related Debt	291.1	1,837,827	1,741,149
Total Net Resources Available		**1,961,554**	**2,076,381**
TOTAL LIABILITIES AND NET RESOURCES		**$ 2,278,364**	**$ 2,426,898**

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
DECEMBER 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 155,000	$ 155,000
Other F&E Project Funds	318	736	3,874
Other Non-Operating Funds	340	55,215	75,103
Admissions	410	399,860	429,081
Commercial Space	415	74,615	74,205
Carnival	421	197,795	243,167
Food Concessions	422	140,548	134,412
Exhibits	430	22,856	16,523
Great Western Livestock Show	440	39,828	39,748
Satellite Wagering	450	166,661	185,373
Attractions - Fairtime	460	80,395	57,213
Miscellaneous Fair	470	196,077	202,700
JLA Revenue	476	51,080	41,681
Non-Fair Revenue	480	343,631	305,241
Prior Year Adjustment	490	2,996	3,592
Current Portion of All Long Term Debt	495	16,091	10,829
Total Revenue		**1,943,383**	**1,977,742**
EXPENSES			
Administration	500	390,431	396,925
Maintenance and Operations	520	634,276	546,989
Publicity	540	79,013	72,749
Attendance	560	110,442	106,636
Miscellaneous Fair	570	78,109	25,642
Miscellaneous Interim Expense	571	88,012	139,135
JLA - Expense	576	33,872	24,618
Premiums	580	37,567	44,982
Net Resources - Capital Assets, less related Debt	630	41,159	46,230
Great Western Livestock Show	640	62,750	76,681
Satellite Wagering Expense	650	193,425	198,825
Attractions - Fairtime	660	269,311	243,382
Non-Capitalized Expenditures	723	-	2,531
Prior Year Adjustments	800	(72,500)	(8,117)
Cash Over/Short from Ticket Sales	850	405	240
Depreciation Expense	900	90,089	88,858
Non-Capitalized Millennium Flex	945	21,849	10,049
Total Expenses		**2,058,210**	**2,016,353**
RESOURCES			
Net Change - Income / (Loss)		(114,827)	(38,611)
Resources Available, January 1		2,076,381	2,114,991
Resources Available, December 31		**$ 1,961,554**	**$ 2,076,381**

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue	$ (114,827)	$ (38,610)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	19,465	1,824
(Increase) Decrease in Deferred Charges	(6,496)	3,338
Increase (Decrease) in Deferred Income	(7,587)	8,595
Increase (Decrease) in Accounts Payable	15,389	33,378
Increase (Decrease) in Current Portion of Long-Term Liability	(10,752)	(8,682)
Increase (Decrease) in Taxes Payable	3,178	(2,958)
Increase (Decrease) in Compensated Absence Liability	9,273	8,363
Increase (Decrease) in Guarantee Deposits	(200)	200
Total Adjustments	22,270	44,057
Net Cash Provided (Used) by Operating Activities	**(92,557)**	**5,447**
CASH FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	-	3,874
(Increase) Decrease in Buildings & Improvements	43,829	79,266
(Increase) Decrease in Equipment	9,593	(20,468)
Net Cash Provided (Used) by Investing Activities	**53,422**	**62,672**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	(43,008)	(30,186)
Net Cash Provided (Used) by Financing Activities	**(43,008)**	**(30,186)**
NET INCREASE (DECREASE) IN CASH	**(82,143)**	**37,932**
Cash at Beginning of Year	446,284	408,352
CASH AT END OF YEAR	**$ 364,141**	**$ 446,284**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 24th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Tulare County Fair each year in Tulare, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after

December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2008. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	$ 150	$ 150
Change Funds	11,820	8,320
Cash in Bank - Operating	116,151	257,028
Cash in Bank - Premium	6,724	5,088
Cash in Bank - Payroll	4,230	8,456
Cash in Bank - JLA	60,860	46,367
Cash in Bank – LAIF	164,206	120,875
Total Cash and Cash Equivalents	$ 364,141	$ 446,284

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable - Trade	$ 34,697	$ 64,939
Accounts Receivable – JLA	29,742	19,020
Allowance for Doubtful Accounts	(16,362)	(16,418)
Accounts Receivable - Net	$ 48,077	$ 67,541

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	$ 3,406,960	$ 3,370,276
Less: Accumulated Depreciation	(2,057,256)	(1,976,743)
Building & Improvements - Net	$ 1,349,704	$ 1,393,533
Equipment	$ 189,076	$ 189,076
Less: Accumulated Depreciation	(169,756)	(160,163)
Equipment - Net	$ 19,321	$ 28,913

NOTE 6 **LONG-TERM DEBT**

F & E Financial Assistance Loan

The DAA has entered into a long-term loan agreement with Division of Fairs & Expositions to finance aged payables that were 61 days or older. The terms of the agreement are as follows:

F&E Loan:

Loan Amount	$ 194,344
First Payment Date	2003
Payment Amount	$ 19,434
Duration of Loan	120 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/08	$ 116,606
Current Portion at 12/31/08	$ 19,434
Long-Term Portion at 12/31/08	$ 97,172

California Authority of Racing Fairs (CARF) Payment

The DAA has entered into a long-term loan agreement with CARF to finance previously disputed outstanding amount of $ 53,760 from 1999-2002 for the replacement of aged equipment in the 24th DAA's Satellite Wagering Facility. The terms of the agreement are as follows:

CARF Loan:

Loan Amount	$ 53,760
First Payment Date	January 1, 2008
Payment Amount	$ 10,752
Duration of Loan	60 Months
Interest Rate	Zero, Principle Only

In the year 2008 the Fair paid CARF four payments of totaling $10,572 reducing the amount to $43,008. Thus, after these payments CARF forgave the remaining loan balance of $43,008 owed by the 24 th DAA-Tulare County Fair. Therefore, as of December 31, 2008 this obligation is considered fully satisfied.

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The

DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 9 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations. The DAA’s management believes, none of which, will have a material effect on its financial position or results of operations.

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 24th DAA Board of Directors
1	Chief Executive Officer, 24th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

™

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

MANAGEMENT REPORT #09-023

YEAR ENDED DECEMBER 31, 2008

24TH DISTRICT AGRICULTURAL ASSOCIATION
TULARE COUNTY FAIR
TULARE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Patricia Moore	Auditor
Samprit Shergill	Auditor

MANAGEMENT REPORT NUMBER
#09-023

TABLE OF CONTENTS

PAGE

Mr. Peter Alvitre, President
Board of Directors
24th DAA, Tulare County Fair
215 Martin Luther King
Tulare, California 93274

In planning and performing our audit of the financial statements of the 24th District Agricultural Association (DAA), Tulare County Fair, Tulare, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Tulare County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 24th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 24th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 24th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 24th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 24th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 24th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: accounts payable, sponsorship agreements, and compensated leave liability. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 24th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTS PAYABLE

Our office noted that the Fair is carrying over $46,377 in outstanding charges from the City of Tulare for police patrolling at fair-time from 2005 through 2008; however, the Fair had not entered into a standard agreement for services with the Tulare Police Department in any of the years billed. The City of Tulare has relied on a land purchase agreement drafted in 1994 wherein Item 4 discusses provisions for police services, and has billed according to the fifteen year old document without a mutual agreement with the Fair as to how many hours of patrolling would be required. According to the Fairs & Exposition (F&E) Contract Manual Chapter 5.10, "normally, the overall term of a contract (including all options to renew) may not exceed five years." Moreover it would appear to be extremely difficult for the Fair to budget for police patrolling services without advance knowledge of the "calculated labor and benefits cost based upon actual hours of overtime incurred," because no standard agreement was made to define the patrol hours that should be mutually agreed to or the invoice format detailing the agreed upon service hours prior to services being provided.

Recommendation

1. *The Fair should consider entering into a standard agreement annually with the Tulare Police Department for fair-time police patrolling services. This change would help the Fair's budgeting and planning by securing a prospective of the maximum charges to be billed by the City of Tulare for the annual patrolling services. Furthermore, a written agreement would help mitigate any possible dispute that may arise.*

SPONSORSHIP AGREEMENTS

Our office found when reviewing the 35th DAA's Policy & Procedure Manual that the Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the F&E Contract Manual, Chapter 6 § 6.25. According to the F&E Contract Manual the process to follow is: a) DAA Boards establish "procedures" for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contract Manual requirements or F&E approval. They are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1 (b) does require F&E to review sponsorship contracts that exceed $100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

2. *The Fair Board of Directors should comply with the F&E Contract Manual and establish policies and procedures for entering and securing sponsorship agreements.*

COMPENSATED LEAVE LIABILITY

Our office noted that the Fair allowed two employees to maintain excessive compensated leave balances. These employees had leave balances of 964.5 and 858 hours at year-end. The Department of Personnel Administration limits the number of hours that permanent employees may carry over to the following calendar year to a maximum of 640 hours. This was a prior year audit finding.

Recommendation

3. *The Fair should ensure that permanent employees do not carry over accrued leave hours in excess of 640 hours. The Fair should encourage employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

NON-REPORTABLE CONDITIONS

INTERIM CONTRACTS

Our office noted that the Fair did not always forward hazardous rental agreements to California Fair Service Authority (CFSA) when the event required review of the insurance and indemnification. F&E Contract Manual 1.20 (c) requires all hazardous contracts up to $75,000 be sent to CFSA for review and approval of the insurance and indemnification language portions of the contract. The hazardous events noted were rodeos, barrel races, tractor pulls, volleyball competition, and off-road bicycle competitions.

Recommendation

> *The Fair should forward all hazardous rental agreements to CFSA for review and approval of the insurance and indemnification language portion of the contract.*

119-DAY EMPLOYEES

The Fair allowed three temporary employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked ranging from 128 days to 215 days in 2008. This could result in the employees not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(l), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees working six months or more in a calendar year may not be exempt from civil service law. Furthermore, the Accounting Procedures Manual (APM) states that temporary employees may not work more than 119 days in a calendar year.

Recommendation

> *The Fair should comply with the State Constitution and the APM by ensuring temporary employees do not work in excess of the 119-day limitation.*

STANDARD AGREEMENTS

In reviewing standard agreements, our office noted the Fair did not prepare a Form 1099 MISC, for an independent contractor who received $11,989 or for a non-resident corporation for which the Fair was required by the Franchise Tax Board to “withhold at source” in 2008. When required, a Form 1099 should be prepared for each person who receives $600 or more from the Fair.

Additionally, we noted that the Fair made an advance payment to contract SA08-28 that violated F&E Contract Manual 5.00(d), which states “a DAA may not make payments prior to work performed.” The Fair paid $10,300 of the $21,000 contract prior to the completion date as agreed to within the terms of the standard agreement.

Recommendations

The Fair should comply with federal reporting laws and ensure a Form 1099 MISC is issued when required to all independent contractors that receive $600 or more from the Fair.

The Fair should comply with the F&E Contract Manual and stop the practice of paying a contractor before work has been done. This protects the fair from loss if a contractor does not complete an agreement once an advance has been given.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

Mgmt. Report # **09-023**
Year Ended December 31, 2008

REPORTABLE CONDITIONS

Accounts Payable

1) The Fair has contacted and had meetings with the Tulare Police Department to enter into a new standard agreement for Police Services for the 2009 Fair. This agreement will be negotiated on a yearly basis.

Sponsorship Agreements

1) The Board of Directors has approved procedures and a policy for the procurement of, and handling of all sponsorships for the 2009 and beyond Fairs.

2) All Sponsorships over $10,000, 2 years in length or that require new building on the property will be sent to Fairs and Expositions for appropriate review.

Compensated Leave Liability

1) The Fair continues to work to address the leave liabilities of all employees with over 640 total accrued leave hours. A plan is in place to bring down the accrued liability in an affordable fashion.

2) A policy is now in place to assure that no employee accrues over 640 total leave hours in the future.

Geoff R. Hinds, CEO

Peter Alvitre, Board President

Non Reportable Conditions

Interim Contracts

1) The Fair will assure that all hazardous rental agreements will be sent to CFSA for appropriate review and approval.

119 Day Employees

1) The Fair will comply with the State Constitution and APM, and limit the number of days for temporary employees to no more than 119 days

Standard Agreements

1) The Fair will assure that all contractors receive the appropriate documentation and forms in all instances, including for a 1099 MISC in the future.
2) The Fair will not pay contractors until satisfaction completion of all work.

Date: September 06, 2009

Geoff R. Hinds, CEO

Peter Alvitre, Board President

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 24th DAA, Tulare County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 1, 2009 and June 12, 2009. My staff met with management on June 18, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
Chief, Audit Office

June 12, 2009

REPORT DISTRIBUTION

Number	Recipient
1	President, 24th DAA Board of Directors
1	Chief Executive Officer, 24th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office